

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF)	CASE NO. 90-321
KENTUCKY-AMERICAN WATER COMPANY)	
EFFECTIVE ON DECEMBER 31, 1990)	

O R D E R

IT IS ORDERED that Kentucky-American Water Company ("Kentucky-American") shall file an original and 12 copies of the following information with the Commission, with a copy to all parties of record, by January 23, 1991. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided elsewhere in this proceeding, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. If the information cannot be provided by the date specified, you should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

1. Provide Kentucky-American's projected Construction Work in Process ("CWIP") levels for the 5-year period subsequent to the test period. Provide estimated levels, the basis for the estimates, and the major projects.

2. Provide a detailed analysis of Kentucky-American's contract retention for the past 5 calendar years compared to the test period.

3. On page 6 of Robert Edens' direct testimony, he states that during the test period Kentucky-American made 9,613 soundings with its leak detection equipment and expended \$67,420 to repair the 103 leaks detected.

a. Provide the cost of the test-period soundings and if the \$67,420 includes this cost.

b. For each calendar year beginning in 1986 and the test period, provide: (1) the number of soundings made; (2) the cost of the soundings; (3) the number of leaks detected; (4) the estimated leak repair cost; (5) the estimated water savings in gallons; and (6) the estimated annual production cost savings.

4. On page 7 of his direct testimony, Mr. Edens stated that at the close of the second quarter, Kentucky-American's leak detection program was deferred for the remainder of 1990.

a. Due to the deferral of the leak detection program, did Kentucky-American's unaccounted-for water increase during the last half of 1990?

b. Provide an analysis of the quarterly unaccounted-for water for 1989 and 1990.

5. On that same page, Mr. Edens stated that the 1991 leak detection budget was reduced by half. Provide the amount Kentucky-American has budgeted for its 1991 leak detection program.

6. Since the cost of the leak detection program has historically exceeded the savings realized, has Kentucky-American considered alternative methods to reduce its unaccounted-for water? If yes, provide a list of each alternative considered, including a brief discussion of each.

7. Did Kentucky-American implement its leak detection program as cost reduction or conservation program?

8. On page 8 of Mr. Edens' direct testimony, he states that Kentucky-American is performing an aquatic study in order to determine if Kentucky-American can obtain additional water from the Kentucky River.

a. Provide Kentucky-American's estimated cost for its aquatic study and the expected completion date.

b. Provide the actual cost of the aquatic study incurred to date and if any of this amount has been included in operating expenses, utility plant in service, or CWIP.

9. On page 13 of Mr. Edens' direct testimony, he discusses the importance of controlling costs and points to the implementation of competitive bidding and review of employee duties as ways Kentucky-American has accomplished this task. Provide specific examples of how each process has assisted in the controlling of test-period cost.

10. Provide a schedule which reconciles each component of the pro forma capital structure totalling \$80,531,428 as shown on Exhibit No. 5, Schedule 1, of the application with the capital structure at the end of the test period of \$80,902,000 as shown in the response to Item 1, Schedule 1, page 1 of 3, to the Order dated November 11, 1990. Include an explanation of the difference between each component.

11. On page 7 of Chris Jarrett's direct testimony, he states that Kentucky-American has substituted the \$6,800,000 financing consummated on November 28, 1990 for the following: (1) the actual short-term debt at September 30, 1990 of \$2,870,039; and (2) \$4,000,000 Series F Bonds, that matured January 1, 1991. On page 8, Mr. Jarrett stated that Kentucky-American repaid \$2,333,309.71 in outstanding bank loans to First Security and invested the remaining \$4,466,690.29.

a. Reconcile the difference between the short-term debt of \$2,870,039 and the payment of outstanding bank loans in the amount of \$2,333,309.71, as referenced on page 8 of Mr. Jarrett's direct testimony.

b. The Series F Bonds have an outstanding balance of \$4,000,000 while Kentucky-American has \$4,466,690.29 available for the bond retirement. What will Kentucky-American do with the remaining \$466,690.29?

c. The Series F Bonds have an interest rate of 5 percent while the new bond issuance has an interest rate of 9.83 percent. Calculate Kentucky-American's weighted cost of debt and

capital based on including the Series F Bonds (provide any supporting documentation).

12. Expand on Mr. Jarrett's response to Question 18 contained on pages 6 and 7 of his direct testimony.

13. Provide a copy of Kentucky-American's current service contract with American Water Works Service Company ("Service Company").

14. On page 13 of his direct testimony, Mr. Jarrett stated that Kentucky-American's current Service Company contract was signed on January 1, 1989 but not implemented until October 1, 1990.

a. Did Kentucky-American inform the Commission in its previous rate case of its new Service Company contract?

b. Has Kentucky-American informed or requested the Commission's opinion of this contract prior to this proceeding?

c. Provide a list of those states where approval has been obtained for the 1989 Service Company contract. Include documentation (i.e.; Order or correspondence) of each jurisdiction's approval.

d. Provide a detailed narrative of the process involved in negotiating the 1989 agreement and Kentucky-American's involvement in that process.

15. Is Kentucky-American the only subsidiary in this region that bills its customers on a quarterly basis?

16. a. Is data processing expense (customer billing) a function of the number of customers billed or the amount of bills processed?

b. Would monthly billing require an increased amount of programmer and computer time than quarterly billing?

17. Exhibit CJ-3 attached to Mr. Jarrett's direct testimony, shows the additional Service Company charges attributable to the use of the 1989 Agreement as opposed to the 1971 contract.

a. Provide a comparison similar to Exhibit CJ-3 for each subsidiary in Kentucky-American's region.

b. Is Kentucky-American the only subsidiary whose Service Company allocation increased due to the implementation of the 1989 contract?

18. a. During the test period Kentucky experienced an extremely cold winter. Explain the impact this had on Kentucky-American's test-period operations.

b. If test-period operations were impacted, should they be adjusted to normalize the effect?

19. On page 20 of his direct testimony, Mr. Jarrett stated that 24.5 percent of the total increase in Service Company charges was due to an increase in direct hourly charges. On pages 18 and 19, Mr. Jarrett attributed this increase to: (1) research of source of supply options; (2) changing Kentucky-American's in-house accounting system; (3) addressing the Commission's Order in Administrative Case No. 313; and (4) analyzing the guidelines for the forecasted test period.

a. Provide the number of hours and dollar amount for each of the aforementioned areas.

b. Are these expenditures non-recurring?

20. a. W/P-C-10-4 shows the estimated cost to overhaul the hydrotreater driveheads that is to be completed by December 31, 1990. Provide the actual cost of overhauling the hydrotreater driveheads at the Kentucky River station when available.

b. W/P-C-1-5 is a memorandum discussing the estimated life of the rebuilt hydrotreater drive. Provide the basis for the estimated life of 9 years.

c. When was the hydrotreater placed in service?

21. W/P-A-6-6 shows the design costs for Kentucky-American's expansion of its Richmond Road Station in the amount of \$488,849.

a. Provide the date the design costs were incurred, the estimated date the expansion will begin, and the estimated completion date.

b. In Case No. 89-340¹ the design costs were included in CWIP and in the calculation of Allowance for Funds Used During Construction ("AFUDC"). Explain why the design costs were excluded from CWIP and AFUDC in this proceeding.

c. In Case No. 89-340 the design costs were estimated to be \$520,000; however, only \$488,849 was included in this case. Explain the difference between the two amounts.

22. Kentucky-American last performed a lead-lag study in Case No. 10069.² Since that case, Kentucky-American has continued

¹ Case No. 89-340, Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on January 28, 1990, Order dated June 28, 1990.

² Case No. 10069, Notice of Adjustment of the Rates of Kentucky-American Water Company, Order dated June 3, 1988.

to use a 1/7 formula approach. Explain why the 1/7 formula is still appropriate.

23. Kentucky-American has proposed to increase test-period chemical expense by \$10,064 to reflect: (1) test-period chemical usage at current contract prices; and (2) the use of ferric chloride at Kentucky River Station.

a. According to W/P-C-4-1, Kentucky-American's annual chemical costs have been reduced by approximately \$19,136. Explain the reduction in test-period chemical costs.

b. W/P-C-4-4 is a memorandum regarding the use of ferric chloride at the Richmond Road Station. The memorandum states that the use of ferric chloride is a test that will be completed in 1991 and that the hypothetical ferric chloride use would not affect the current rate case. Based on this, explain why an adjustment to reflect the use of ferric chloride was proposed.

24. Refer to W/P-C-5-1:

a. Kentucky-American has estimated the cost of this rate case to be \$129,000. Provide invoices and documentation to support this estimated expenditure. Include a breakdown of the rate case costs as shown in Format 24a.

b. Kentucky-American has estimated the cost of its depreciation study to be \$50,893. Provide invoices and documentation to support this estimated expenditure.

25. On page 10 of his direct testimony, Edward Grubb has proposed to amortize the cost of the depreciation study over a 5-year period. On page 5 of John Ober's direct testimony, he

states that Kentucky-American's depreciation study was completed 7 years ago. Explain why a 5-year amortization period was used rather than 7 years.

26. a. W/P-C-7-11 estimates the management audit will cost approximately \$257,000. Provide invoices and documentation to support the estimated expenditure.

b. Why should the unamortized portion of management audit expense be included in rate base and given a return?

27. a. W/P-C-15-5 estimates that Kentucky-American will haul 15 loads of sludge per month from its Richmond Road Station at monthly cost of \$6,640. Document Kentucky-American's estimate that it will haul 15 loads of sludge per month from its Richmond Road Station.

b. Provide a comparison of the amount and cost of sludge hauled during the test period with the 12-month preceding the test period.

28. Provide an analysis of water testing performed by Kentucky-American and its Service Company for the test period and the 12 months preceding the test period. The analysis should include both type and monthly cost.

29. Item 21(b) of the response to the Commission's Order of November 15, 1990 reveals that group insurance expense has steadily increased from 1987 through the test period. Provide a discussion of what steps Kentucky-American has undertaken to control this expense.

30. On page 9 of Mr. Grubb's direct testimony, he discusses the anticipated increase in group insurance cost of 8.5

percent that will be effective January 1, 1991. Provide the documentation to support the increase in group insurance rates.

31. Item 21(b) of the response to the Commission's Order of November 15, 1990 reveals that Other Welfare and Educational Expenses have increased from \$42,909 in 1984 to \$111,223 in 1989. Provide an explanation of this account and the reason for the increase.

32. Kentucky-American's pro forma adjustment to recognize the cost to serve new customers (W/P-C-11) is based on operation and maintenance net of labor costs, labor related expenses, and uncollectibles. Several Service Company charges are based on the direct hours billed to Kentucky-American and would not vary with the number of customers served. Explain why these Service Company charges are included in Kentucky-American's calculation of the cost to serve new customers.

33. On page 12 of Mr. Grubb's testimony, he states that the adjustment to postage expense is based on an anticipated postal rate hike that will occur in 1991. Provide documentation to support Kentucky-American's expected increase of 19 percent.

34. W/P-C-16-1 is Kentucky-American's calculation of pro forma gasoline expenses based on the cost of gasoline at the close of the test period and increase in federal gasoline tax.

a. What is the current gasoline price?

b. Is Superamerica Kentucky-American's only gasoline source?

c. Based on the volatile nature of gasoline prices, does this adjustment meet the rate-making criteria of known and measurable?

35. On page 7 of Edward Oxley's direct testimony, he states that the excess federal income taxes resulting from the Tax Reduction Act of 1986 are amortized over the book life of the asset. Calculate the amortization of the excess deferred federal income taxes using the depreciation lives recommended in Kentucky-American's depreciation study. Provide a copy of all workpapers, calculations, and assumptions.

36. W/P-F-2-1 shows the balance in Account 190.1 related to Contributions in Aid of Construction ("CIAC") to be \$471,381 and has amortized this amount over its tax life. Provide a detailed calculation and workpapers to support both the amount of Account 190.1 attributable to CIAC and the amortization.

37. Provide the amount of deferred taxes reported in Account 190.1 attributable to customer advances and the calculation of the amortization of those taxes.

38. On W/P-A-7, Kentucky-American has increased its reserve for accumulated depreciation reserve by its depreciation expense adjustment due to present rates in the amount of \$35,729. However, depreciation expense was also increased by \$673,862 to reflect the depreciation study recommendations. Explain why Kentucky-American only recognized its current depreciation rate adjustment.

39. In its responses to Items 16, 20 and 21a of the Commission's Order of November 15, 1990, Kentucky-American failed

to follow Format 14. Due to this, Kentucky American's responses are difficult to review. In order to properly review the information requested, resubmit the responses in the proper format.

40. Refer to Item 11 of the response to the Commission's Order of November 15, 1990:

a. Explain why cash balances are negative with the exceptions of February, March, April, and September.

b. Explain what the accounts receivable from associated companies represents.

41. In response to Item 29 of the Commission's Order of November 15, 1990, Kentucky-American provided a brief outline of its professional service expenses and supporting invoices. However, the analysis failed to identify the accounts charged. Provide a monthly analysis of Kentucky-American's professional expenses including the appropriate account titles and numbers.

42. Both Exhibit 2, Schedule 2 of the application, and Item 9 of the response to the Order of November 15, 1990 contain Kentucky-American's balance sheet for the fiscal year ended September 30, 1990. Provide a reconciliation of the two balance sheets.

43. Refer to Item 7 of the response to the Commission's Order of November 15, 1990.

a. In its response Kentucky-American discussed the last rate filing of Tennessee-American Water Company ("Tennessee-American") and the Tennessee Commission's weather

normalization analysis. Provide a copy of the Final Order from the Tennessee-American rate case and the weather normalization analysis.

b. Has Kentucky-American or its Service Company considered the possibility of using the Tennessee weather normalization analysis in this or future Kentucky-American rate case proceedings?

44. In narrative form compare Kentucky-American's proposed depreciation study with the study performed in 1983.

45. On page 9 of John Ober's direct testimony, he states that Kentucky-American's retirements for a 30-year period beginning in 1960 were analyzed. Why was only a 30-year period analyzed?

46. On page 8 of his direct testimony, Mr. Ober refers to the "Iowa" Type Survivor Curves and states that they are the most widely used survivor curves for industrial and utility properties. Were the "Iowa" curves used in Kentucky-American's last depreciation study and what alternatives exist to these survivor curves?

47. Item 21c of the response to the Commission's Order of November 15, 1990 shows that total salaries and wages charged to test-period operating expenses was \$3,750,250. However, on W/P-C-2-4 Kentucky-American has calculated test-period salaries and wages of \$3,685,340. Provide a reconciliation of the two amounts.

48. Explain why Kentucky-American did not use its actual test-period salaries and wages of \$3,750,250 in calculating its pro forma wage and salary increase.

49. Item 21c of the response to the Commission's Order of November 15, 1990, shows that test-period overtime pay increased by 36.6 percent over the 1989 level. Explain the significant increase that occurred in test-period overtime pay.

50. Provide a copy of the most recent available cost of service study, mathematically updated to the test period in this case as necessary.

Done at Frankfort, Kentucky, this 9th day of January, 1991.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director

KENTUCKY-AMERICAN WATER COMPANY
Case No. 90-321
Rate Case Expenditures

<u>Category</u>	<u>Hours</u>	<u>Rate per Hour</u>	<u>Other Expenses*</u>	<u>Total by Category</u>
Accounting				
Engineering				
Legal				
Other				

Estimated Total Rate Case Expense
Number of Customers
Expense per Customer

*Other Expenses - travel related, copying charge, advertising, etc. - itemize.